

Message Text

UNCLASSIFIED

PAGE 01 ABIDJA 08341 01 OF 02 081507Z

ACTION EB-08

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ICA-20 XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01

AGRE-00 STR-07 PC-05 /122 W

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R 081201Z SEP 78

FM AMEMBASSY ABIDJAN

TO DEPT OF TREASURY WASHDC

INFO SECSTATE WASHDC 300

UNCLAS SECTION 1 OF 2 ABIDJAN 8341

DEPT PASS DCC AGENCIES

E.O. 11652: N/A

TAGS: AFDF, EFIN, EAID

SUBJECT: AFRICAN DEVELOPMENT FUND LOAN FOR EQUATORIAL GUINEA
COCOA REHABILITATION PROJECT

SUMMARY: AFRICAN DEVELOPMENT FUND MANAGEMENT PROPOSES FUA 7.3 MILLION FUND UNIT OF ACCOUNT (FUA EQUAL TO US \$1.11) LOAN TO THE GOVERNMENT OF EQUATORIAL GUINEA TO FINANCE A PORTION OF PROJECT FOR REHABILITATION OF FIVE THOUSAND HA OF COCOA PLANTATION LOCATED ON ISLAND OF MACIAS N'GUEMA (FERNANDO PO). TOTAL COST OF PROJECT ESTIMATED AT FUA 16.5 MILLION TO BE CO-FINANCED BY AFDF AND GOEG.
END SUMMARY.

1. AFDF DOCUMENT BD/78/69 AND ATTACHMENTS DESCRIBING LOAN POUCHED TO DEVELOPMENT COORDINATING COMMITTEE (DCC) AGENCIES SEPTEMBER 5, 1978. BOARD CONSIDERATION SCHEDULED FOR SEPTEMBER 21, 1978.

2. AFDF MANAGEMENT PROPOSES FUA 7.3 MILLION LOAN TO GOVERNMENT OF EQUATORIAL GUINEA FOR FINANCE 56 PERCENT OF COCOA PLANTATION REHABILITATION PROJECT ON ISLAND OF MACIAS N'GUEMA. PROJECT IS REGARDED AS EMERGENCY MEASURE TO INCREASE PRODUCTION ON SEVERAL
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PAGE 02 ABIDJA 08341 01 OF 02 081507Z

STATE-OWNED PLANTATIONS TOTALING FIVE THOUSAND HA. PROJECT ALSO ENTAILS ANNUAL PRODUCTION OF 2,775 TONS OF FOOD CROPS FOR SUBSISTENCE OF 1,700 WORKERS TO BE HIRED FOR PROJECT EXECUTION. PROJECT INCLUDES FOLLOWING COMPONENTS: (A) PROCUREMENT OF EQUIPMENT (FUA 1.7 MILLION OF WHICH FUA 1.5 MILLION FOREX). PROJECT IS FAIRLY EQUIPMENT INTENSIVE DUE TO LABOR SHORTAGE IN PROJECT AREA. PURCHASES INCLUDE FORTY 45-HP TRACTORS, 60 FIVE-TON TRAILERS, TEN

GRADERS, 20 POD BREAKING MACHINES, 10 FOUR-TON TRUCKS, FIVE 7.5 TON TRUCKS, 450 LIGHT SPRAYING MACHINES, AND VARIOUS OTHER ITEMS; (B) CONSTRUCTION OF FARM BUILDINGS (FUA 460 THOUSAND OF WHICH FUA 199 THOUSAND FOREX); (C) RENOVATION OF EXISTING PROCESSING EQUIPMENT (FUA 606 THOUSAND OF WHICH FUA 364 THOUSAND FOREX); AND (D) HIRING OF NATIONAL STAFF (FUA 6.6 MILLION LOCAL COST). PROJECT WILL PROVIDE DIRECT HIRE FOR 1,700 WORKERS WITH A MONTHLY WAGE OF FUA 100. GOEG TO MEET INITIAL WAGES (APPROXIMATELY 3 YEARS) AS PART OF ITS SHARE OF PROJECT COST; (E) EXPATRIATE TECHNICAL ASSISTANCE (FUA 530 THOUSAND IN FOREX). EXPATRIATES TO SERVE AS PROJECT MANAGER, PRODUCTION SPECIALIST AND AGRICULTURAL EXPERT; (F) AGRICULTURAL INPUTS (FUA 1.9 MILLION OF WHICH FUA 1.5 MILLION FOREX); (G) MACHINERY AND EQUIPMENT OPERATING COSTS (FUA 341 THOUSAND OF WHICH 136 THOUSAND FOREX); AND (H) PROCESSING CENTER OPERATING COSTS (FUA 341 THOUSAND OF WHICH 136 THOUSAND FOREX). TOTAL PROJECT COST ESTIMATED AT FUA 16.52 MILLION OF WHICH FUA 10.5 MILLION IS IN LOCAL COSTS. AFDF LOAN TO FINANCE FUA 6.05 MILLION IN FOREX AND FUA 1.22 MILLION IN LOCAL COSTS. GOEG TO FINANCE FUA 9.25 MILLION IN LOCAL COSTS. OVERALL PROJECT COSTS INCLUDE TEN PERCENT ALLOWANCE FOR PHYSICAL CONTINGENCIES AND ALLOWANCE FOR EIGHT PERCENT ANNUAL PRICE ESCALATION. BORROWER TO MEET ANY COST OVERRUNS. PROCUREMENT OF AFDF FINANCED COMPONENTS TO BE THROUGH INTERNATIONAL COMPETITIVE BID PROCEDURES. PROPOSED TERMS OF AFDF LOAN: 50 YEARS AMORTIZATION INCLUDING TEN YEARS GRACE, 0.75 PERCENT SERVICE CHARGE. GOVERNMENT OF EQUATORIAL GUINEA TO BE BORROWER, LEGALLY AUTONOMOUS BOARD TO BE ESTABLISHED BY GOEG WILL SERVE AS EXECUTING AGENCY.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 ABIDJA 08341 01 OF 02 081507Z

LISHED BY GOEG WILL SERVE AS EXECUTING AGENCY.

3. EQUATORIAL GUINEA COMPRISES A CONTINENTAL PROVINCE, RIO MUNI, AND TWO ISLANDS, MACIAS N'GUEMA (FORMERLY FERNANDO PO) AND ANNABON. RIO MUNI ACCOUNTS FOR ABOUT 93 PERCENT OF THE COUNTRY'S TOTAL AREA OF 28 THOUSAND SQUARE KM. POPULATION OF THE COUNTRY IS CURRENTLY ESTIMATED AT 250 THOUSAND, WITH 1972 PER CAPITA GNP ESTIMATED AT US \$240. THERE IS LITTLE CURRENT AGRICULTURAL DATA AVAILABLE. IN 1968 THE COUNTRY'S COCOA OUTPUT WAS 40 THOUSAND TONS. THE APPRAISAL REPORT INDICATES THAT THE DROP WAS DUE TO "TOTAL NEGLECT OF CERTAIN PLANTATIONS MOST OF WHICH WERE TAKEN OVER BY THE STATE," DEPARTURE OF QUALIFIED EXPATRIATE ADMINISTRATORS, DEPARTURE OF THE VITAL NIGERIAN LABOR FORCE, AND LACK OF ESSENTIAL INPUTS. THE GOVERNMENT CONSIDERS THE REVIVAL OF THE COCOA INDUSTRY AS ESSENTIAL FOR THE COUNTRY'S FINANCIAL STABILITY. EFFORTS ARE NOW UNDERWAY TO BOOST PRODUCTION AND TO PROCURE THE REQUISITE MANPOWER.

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PAGE 01 ABIDJA 08341 02 OF 02 081623Z
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INFO SECSTATE WASHDC 301

UNCLAS SECTION 2 OF 2 ABIDJAN 8341

DEPT PASS DCC AGENCIES

4. THE PROJECT AREA LOCATED ON THE ISLAND OF MACIAS N'GUEMA IS 20 KM SOUTH OF MALABO. THE ISLAND IS SHORT OF MANPOWER AND THEREFORE THE GOVERNMENT HOPES TO TRANSFER 18 THOUSAND WORKERS FROM RIO MUNI TO SUPPORT THE AGRICULTURAL DEVELOPMENT OF THE ISLAND. HOWEVER, THE ISLAND PRODUCES INSUFFICIENT FOOD STUFFS TO SUPPORT A SIGNIFICANT POPULATION INCREASE, AND THEREFORE THE PROPOSED PROJECT PROVIDES FOR THE ANNUAL PRODUCTION OF 2,775 TONS OF FOOD CROPS. FIVE PERCENT OF THE PROJECT AREA IS DEVOTED TO FOOD PRODUCTION, WITH NECESSARY INPUTS BEING INCLUDED IN THE PROJECT COSTS.

5. PROJECT EXECUTION WILL BE CARRIED OUT BY A LEGALLY AUTONOMOUS BOARD WORKING UNDER THE GENERAL GUIDANCE OF THE MINISTRY OF AGRICULTURE. AFDF HAS MADE ESTABLISHMENT OF A SEPARATE BODY A CONDITION OF THE LOAN, SINCE THE MINISTRY OF AGRICULTURE WITH A TOTAL OF EIGHT EMPLOYEES AND NO INDEPENDENT OPERATING BUDGET IS UNPREPARED TO ASSUME THE BURDEN. AFDF LOAN AGREEMENT ALSO STIPULATES THAT NEWLY ESTABLISHED BODY'S ARTICLES OF ASSOCIATION BE SUBMITTED FOR AFDF APPROVAL. FURTHER CONDITION OF LOAN PROVIDES THAT PROJECT SHALL BE MANAGED BY AFDF RECRUITED EXPATRIATE STAFF ASSISTED BY THREE NATIONAL STAFF ON FULL TIME BASIS.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 ABIDJA 08341 02 OF 02 081623Z

6. THE PROJECT ENVISIONS INCREMENTAL ANNUAL PRODUCTION OF 2,500 TONS PER YEAR. THE PROJECT CASH FLOW BECOMES POSITIVE FROM YEAR FOUR, EVEN THOUGH FINANCIAL COST OF NATIONAL MANPOWER IS CONSIDERED A PROJECT COST. HOWEVER, WITHOUT TIMELY REPLANTING, THE ANNUAL CASH FLOW BECOMES NEGATIVE FROM YEAR ELEVEN. AFDF MANAGE-

MENT RECOMMENDS THAT GOEG GIVE SPECIAL ATTENTION TO NEED FOR REPLANTING TO AVOID DECREASED PRODUCTION FROM ELEVENTH YEAR. APPRAISAL REPORT INDICATES THAT PROJECT WILL HELP GENERATE TOTAL OF 16 THOUSAND JOBS INCLUDING 1,700 DIRECT EMPLOYMENT POSITIONS. MONTHLY WAGE OF FUA 100 IS EXPECTED TO OFFER SUFFICIENT INCENTIVE TO DRAW LABOR FORCE FROM CONTINENTAL REGION OF COUNTRY TO ISLAND PROJECT SITE. INTERNAL RATE OF RETURN WITH COST OF LABOR SHADOW PRICED AND COCOA FOB PRICE AT US \$1,500 PER TON (BELOW CURRENT MARKET PRICE) ESTIMATED AT 45 PERCENT. RATE FALLS TO 37 PERCENT WHEN PHYSICAL AND PRICE CONTINGENCIES APPLIED.

7. COMMENT: THE GEOGRAPHIC, DEMOGRAPHIC, MANAGERIAL, AND TECHNICAL RESTRAINS AFFECTING THE IMPLEMENTATION OF THIS PROJECT INDICATE IT IS PROBABLY NOT VIABLE AS CURRENTLY STRUCTURED. THE SUCCESS OF THE PROJECT IS DEPENDENT LARGELY UPON THE GOVERNMENT'S ABILITY TO EFFECTIVELY RELOCATE LARGE NUMBERS OF PEOPLE AND TO DEVELOP THEM INTO A PRODUCTIVE ECONOMIC UNIT. THE AFRICAN DEVELOPMENT FUND HAS ATTEMPTED TO ENSURE THE SUCCESS OF THE PROJECT THROUGH PROVISION OF EXPATRIATE MANAGEMENT, WAGE INCENTIVES, AND TECHNICAL ASSISTANCE. HOWEVER, IT IS DOUBTFUL THAT THESE MEASURES WILL BE SUFFICIENT TO OVERCOME CIRCUMSTANCES WHICH HAVE RESULTED IN THE CURRENT CONDITION OF EXISTING PLANTATIONS AND THE AGRICULTURAL SECTOR IN GENERAL. FURTHER, EVEN ASSUMING SUCCESSFUL IMPLEMENTATION, FINANCIAL PROJECTIONS OF THE PROJECT LEAVE DOUBT AS TO ITS CONTINUED VIABILITY WITHOUT SIGNIFICANT SUBSEQUENT INVESTMENT. THESE CONSIDERATIONS COMBINE TO GIVE THE PROJECT THE APPEARANCE OF AN EXPENSIVE EXPERIMENT, AND USAED REGARDS ACHIEVEMENT OF THE PROJECT GOALS AS HIGHLY SPECULATIVE.

UNCLASSIFIED

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PAGE 03 ABIDJA 08341 02 OF 02 081623Z

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Message Attributes

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